MARYLAND
HEALTH CARE
COMMISSION
Informed Consumers/
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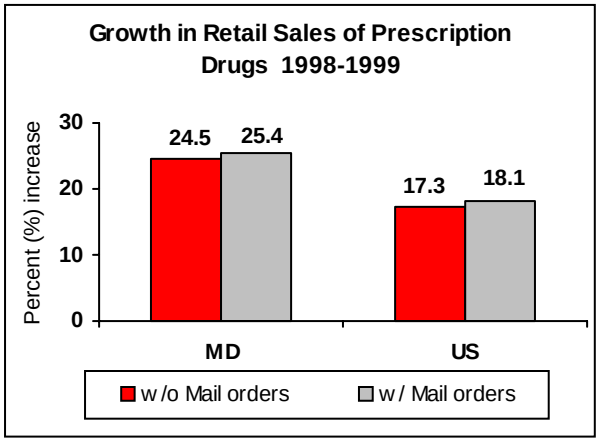
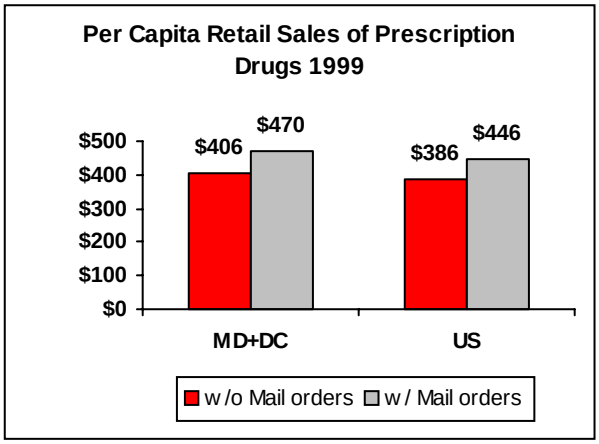
SPOTLIGHT ON MARYLAND

Prescription Drug Expenditures

Dramatic Growth in Drug Spending Driven by Higher Utilization and New Drugs

Between 1998 and 1999, estimated retail sales of prescription drugs, excluding prescription mail orders, grew by 24 percent in Maryland, compared to 17 percent nationwide.[1] Non-mail order retail prescription drug sales in Maryland reached $2.1 billion in 1999, with over $105 billion nationwide.[2] Per capita sales for Maryland and the District of Columbia (DC) combined (which removes spending increases due to population growth and escalated border crossing by DC residents) also indicate above average growth in prescription drug expenditures for Maryland residents.[3] However, both the increase and the Maryland-US difference are smaller. Per capita non-mail order sales for Maryland-DC in 1999 are $406, up 19 percent since 1998. The comparable national figures are $386 and 16 percent.





Mail Order Sales Growth

Nationwide, mail orders accounted for 14 percent of all retail prescription drug sales in 1999, up from 13 percent in 1998. When mail order sales are included in retail sales, all growth rates for 1998 to 1999 increase by a percentage point due to the expanded market share for mail orders. National retail drug and per capita sales with mail orders included are $121 billion (18 percent growth) and $446 (17 percent growth), respectively. If the mail order share of national retail prescription drug sales is assumed for Maryland (and DC), then Maryland's total retail drug sales are estimated to be $2.5 billion, a 25 percent increase over 1998, and per capita total sales for Maryland-DC combined is $470 (20 percent growth).

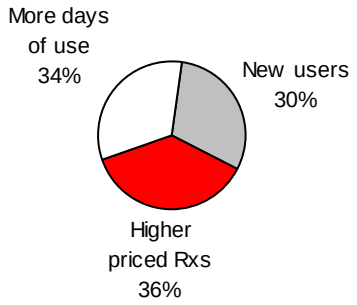
Causes for the Increase

While there is general agreement that increased drug spending is the result of both higher prices and higher utilization, their relative contributions differ depending on the data source. The National Institute for Health Care Management (NIHCM) finds that higher prices account for 64 percent of the total 1993-1998 increase in retail drug spending (42 percent from new, costlier medications, and 22 percent from older drugs), while higher utilization contributes just 36 percent of the increase (23 percent from new drugs, 13 percent from older drugs).[4] They determined the average annual price increase of older drugs, 4.2 percent, to be about the same as overall medical inflation. In a study of pharmacy benefit costs for those with drug coverage from 1995-

1999, Merck-Medco, a leading pharmacy benefit manager (PBM), finds that most of the growth in per member per month (PMPM) spending (64 percent) is due to higher utilization, with 34 percent resulting from an increase in the number of days of therapy per user and 30 percent from new users.[5] Higher priced prescriptions contribute just 36 percent of their PMPM spending growth, mainly due to new drugs. Merck-Medco estimates a 100 percent increase in PMPM spending from 1995-1999. Express Scripts (another PBM and publisher of Drug Trend Report) estimates PMPM growth over this period at about 80 percent, with new drugs (introduced since 1996) accounting for more than one-third of the total increase.[6]

New drugs fuel spending through both price and utilization factors. According to NIHCM, nearly two-thirds of retail spending increases associated with new drugs are price related - they cost more than twice as much as older brand-name drugs, on average.[4] Increased utilization results from the availability of new treatments, and pharmaceutical companies increase the volume being prescribed through their use of direct-to-consumer (DTC) advertising. The rapid adoption of expensive new drugs is expected to drive up prescription costs even more in the near future. A recent study by the University of Maryland projects that annual prescription drug costs will double from 1999 to 2004, with 40 percent of the expected increase due to new drugs not yet on the market.[7] Use of generics, whose per-day cost averages slightly more than one-fourth of the cost of older brand drugs, can reduce spending. The General Accounting Office estimates that greater use of generics could save the nation up to $10 billion per year. Unfortunately, substitution of generic drugs for branded drugs has stalled due to patent extensions for popular branded drugs, which delay when their generic versions may be introduced.

Increase in Pharmacy Benefit Costs 1995-1999[5]



Prescription Costs and Volume

Based on sales with a known source of payment, Maryland has a higher average prescription price but a lower per capita (including DC) number of prescriptions compared to national averages.[3] This may result from Maryland law, which requires insurers and HMOs selling prescription coverage in the state to permit 90-day supplies of maintenance drugs.[8] In 1998 Maryland's average price per prescription was 12 percent above the national average: $43.23 versus $38.45, while the average number of prescriptions per capita for Maryland-DC was 13 percent below the national average: 7.8 versus 9.0. From 1997 to 1998 the number of prescriptions per capita increased by about 6 percent both in Maryland-DC and nationwide. But prescription price growth over this period was lower in Maryland (5 percent) than nationwide (7 percent).

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[1]National Association of Chain Drug Stores (NACDS). The Chain Pharmacy Industry Profile (1999 and 2000). MHCC analysis of sales figures provided by NACDS. Maryland drug sales are derived from total store sales in Maryland and assume that prescription drug shares of the totals are the same as national averages. Unless otherwise noted, this is the source for figures reported in this spending profile.
[2]More than half of Maryland's 1999 non-mail order sales (in dollars) were made by chain drug stores. Sales through supermarkets accounted for about one-fifth, followed by independent drug stores (15 percent) and mass merchants (8 percent). This differs from the pattern nationwide, where independent stores sold more than one-fourth of the non-mail order sales, chain pharmacies accounted for less than half, and supermarkets about one-eighth.
[3]Because purchases by residents of the District of Columbia (DC) account for some of the Maryland sales, estimates for Maryland and DC are combined to compensate for growth in Maryland sales due to increased purchases by DC residents.
[4]National Institute for Health Care Management. "Factors Affecting the Growth of Prescription Drug Expenditures." NIHCM Issue Brief, July 1999.
[5]Merck-Medco Managed Care, L.L.C. Managing Pharmacy Benefit Costs - New Insights for a New Century. May 2000.
[6]Express Scripts. Express Scripts 1999 Drug Trend Report. June 2000.
[7]C.D. Mullins, F. Palumbo, and B. Stuart. "The Impact of Pipeline Drugs on Pharmaceutical Spending, Summary of Preliminary Results." (Center on Drugs and Public Policy, University of Maryland School of Pharmacy, April 13, 2000):1.
[8]A 90-day supply would cost more but fewer prescriptions would need to be filled.

MHCC is an independent, regulatory commission administratively located within the Maryland Department of Health and Mental Hygiene.
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